Exhibit No. __(SLM-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-07_____

DOCKET NO. UG-07_____

DIRECT TESTIMONY OF

SCOTT L. MORRIS

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, employer and business address.

A. My name is Scott L. Morris and I am employed as the President and Chief Operating Officer of Avista Corporation (Company or Avista), at 1411 East Mission Avenue, Spokane, Washington.

Q. Would you briefly describe your educational background and professional experience?

A. Yes. I am a graduate of Gonzaga University with a Bachelors degree and a Masters degree in organizational leadership. I have also attended the Kidder Peabody School of Financial Management.

I joined the Company in 1981 and have served in a number of roles including customer service manager. In 1991, I was appointed general manager for Avista Utilities' Oregon and California natural gas utility business. I was appointed President and General Manager of Avista Utilities, an operating division of Avista Corporation, in August 2000. In February 2003, I was appointed Senior Vice-President of Avista Corporation, and in May 2006, I was named to my present position. Effective January 1, 2008, I will assume the position of President, CEO, and Chairman of the Board of Avista Corporation.

I am a member of the Providence Health Care board of directors, a member of the Gonzaga University board of trustees, and deputy director of the Washington Roundtable. In 2002, I was appointed by Governor Locke to the Chairmanship of the Washington State Economic Development Commission and served in that role until July 2006. I completed a one-year term as board chairman of the Spokane Regional Chamber of Commerce in 2004 and also served on the

Spokane Area Economic Development Council board. I currently serve on the board of trustees of the Greater Spokane Incorporated. In 2007, the Spokane Area Economic Development Council and Spokane Regional Chamber of Commerce merged to become the Greater Spokane Incorporated.

Q. What is the scope of your testimony in this proceeding?

A. I am testifying as the policy witness for the Company. I provide an overview of Avista Corporation and Avista Utilities. I describe Avista Utilities' overall utility operations, the Company's rate requests in this filing, and the primary factors driving the Company's need for general rate relief. I will also explain the Company's customer support programs that are in place to assist our customers.

In addition, I will briefly address the recent sale of the Company's energy marketing and resource management business, Avista Energy, and some of the current and future challenges that are being faced by the Company, such as the Spokane River relicensing project, transmission upgrades, volatility of energy markets and the Company's efforts to regain its investment grade credit rating, to name a few. I will briefly explain Avista's plans for installation of an Advanced Meter Reading system in Washington. Finally, I introduce each of the other witnesses providing testimony on the Company's behalf.

A table of contents for my testimony is as follows:

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring Exhibit No. ____(SLM-2), pages 1 through 4. Page 1 is a diagram of Avista's corporate structure; pages 2 and 3 include maps showing the Company's electric and natural gas service area in Washington, and Avista's total electric and natural gas service areas; page 4 shows detailed usage and number of customers for each customer class. These exhibits were prepared under my direction.

Q. Please describe Avista's current business focus for the utility and subsidiary operations.

A. The Company continues to work diligently to operate what I believe is a very efficient utility. The Company has historically run its operations with attention to minimizing expense while providing quality service and a high level of customer satisfaction. I will touch on some of our more recent efficiency improvements later in my testimony, such as our outage management, mobile dispatch, and planned advanced meter reading program.

The Company is continuing its recovery from the serious financial challenges of the "energy crisis" during 2000 and 2001. With large electric and natural gas deferrals on its books, the Company's credit ratings dropped in October 2001 to below investment grade. In 2007, the Company continues to be below investment grade and the total electric and natural gas deferral balances as of December 31, 2006 were $97.82 million on a system basis, and $78.24 million for the Washington jurisdiction. Company witness Mr. Malquist will discuss further the actions taken by the Company to improve cash flow, reduce debt, and make progress toward regaining an investment grade credit rating.

Our strategy continues to focus on our energy and utility-related businesses, with our primary emphasis on the electric and natural gas utility business. There are four distinct components to our business focus for the utility, which we have referred to as the four legs of a stool, with each leg representing customers, employees, the communities we serve, and our financial investors. For the stool to be level, each of these legs must be in balance by having the proper emphasis. This means we must maintain a strong, low-cost utility business by delivering efficient, reliable and high quality service, at a reasonable price, to our customers and the communities we serve. We are fortunate to have dedicated employees who, despite the challenges of recent years, have maintained high morale and high customer satisfaction.

Q. Please briefly describe Avista's subsidiary businesses.

A. Avista Corp.'s primary subsidiaries include the energy marketing and resource management business, Avista Energy, and the information and technology business, Advantage IQ, described below, which is headquartered in Spokane, Washington. In April 2007, Avista announced the sale of Avista Energy to Coral Energy Holding, L.P. In 2001, Avista disposed of substantially all of the assets of Avista Communications, and sold the majority of Avista Labs in 2003. Avista currently retains a 6.8% share in Avista Labs successor company, ReliOn, held under Avista Capital, as reflected in the diagram of Avista's corporate structure provided on page 1 of Exhibit No.____(SLM-2).

Q. Would you further elaborate on your description of Avista Energy?

A. Yes. Avista Energy, which commenced operations in 1997, is an electricity and natural gas marketing, trading and resource management business, operating primarily within the Western Electricity Coordinating Council (WECC) geographical area. Besides the Spokane

headquarters, Avista Energy also has an office in Vancouver, British Columbia, Canada. Avista Energy focuses on optimization of combustion turbines and hydroelectric assets owned by other entities, long-term electric supply contracts, natural gas storage, and electric transmission and natural gas transportation arrangements.

Q. Please describe the Company's recently-announced decision to divest itself of Avista Energy.

A. In April, we announced that Avista Energy had signed a definitive agreement to sell substantially all of its contracts and ongoing operations to Coral Energy Holding, L.P. and certain of its subsidiaries (Coral Energy), a subsidiary of Shell. The transaction is expected to close by late second quarter or early third quarter 2007, following the completion of certain contractual requirements, the receipt of necessary regulatory approvals and the satisfaction of other closing conditions. The agreement also includes the sale of the operating assets of Avista Energy Canada, Ltd, which will be acquired by Coral Energy Canada Inc., a subsidiary of Coral Energy.

Over its ten years in operation, Avista Energy has provided benefits to Avista and its shareholders, and in particular, it provided critical financial support to Avista during the energy crisis of 2000 and 2001, and its aftermath. It became clear to the Company, however, that Avista Energy would be more successful if owned by a larger company with the financial resources to support its activities in today's marketplace. While this sale will result in a near-term reduction in earnings, it will reduce the earnings volatility of Avista Corp., and reduce our risk profile, both of which, we believe, will be viewed positively by the rating agencies over the longer term.

Q. How does the Company plan to use the proceeds from this sale?

A. The sale of Avista Energy will be an all-cash transaction reflecting the book value of the Company, which was approximately $202 million as of March 31, 2007. Initially, we anticipate paying down debt and entering into short-term investments with the proceeds. Over time, the proceeds are expected to be reinvested in utility assets.

Q. Please provide an overview of Advantage IQ.

A. Advantage IQ, formerly known as Avista Advantage, commenced operations in 1998 and is a provider of utility bill processing, payment and information services to multi-site customers. Advantage IQ analyzes and presents consolidated bills on-line, and pays utility and other facility-related expenses for multi-site customers throughout North America, such as the Federal Aviation Administration, Alaska Airlines, Frito Lay, Hard Rock Café, and Starbucks, to name a few. Information gathered from invoices, providers and other customer-specific data allows Advantage IQ to provide its customers with in-depth analytical support, real-time reporting and consulting services with regard to facility-related energy, waste, repair and maintenance, and telecom expenses.

II. OVERVIEW OF AVISTA UTILITIES

Q. Please briefly describe Avista Utilities.

A. Avista Utilities provides electric and natural gas service within a 26,000 square mile area of eastern Washington and northern Idaho. The Company, headquartered in Spokane, also provides natural gas distribution service in southwestern and northeastern Oregon. Maps

showing the Company's electric and natural gas service area in Washington and Avista's total electric and natural gas service areas are provided in pages 2 and 3 of Exhibit No. ___ (SLM-2).

As of December 31, 2006, Avista Utilities had total assets (electric and natural gas) of approximately $2.9 billion (on a system basis), with electric retail revenues of $554 million (system) and natural gas retail revenues of $416 million (system). As of December 2006, the Utility had 1,430 full-time employees.

Q. Please describe Avista Utilities' Washington electric and natural gas utility operations.

A. Avista serves 228,000 electric and 141,000 natural gas customers in Washington, of the Company's total of 346,000 and 306,000 customers, respectively (as of March 2007). The Company provides service in the Washington counties of Adams, Asotin, Ferry, Franklin, Grant, Lincoln, Pend Oreille, Stevens, Spokane, Whitman, Klickitat and Skamania. Residential customers accounted for approximately 43% of Washington electric retail usage in 2006, while 54% was served to commercial and industrial customers and 3% to pumping and street lighting. Approximately 49% of natural gas retail usage in Washington was by residential and small commercial customers (Schedule 101), with the remaining 51% by larger commercial and industrial customers. The Company has 28 natural gas transportation customers in Washington. Additional details of usage and number of customers for each customer class are shown on page 4 of Exhibit No.___ (SLM-2).

Avista expects retail electric load growth to average 2.5 percent annually for the next five years in Avista's Washington service territory, primarily due to the above-average population increase and business growth. Job growth in the State of Washington has been outpacing the

nation since December 2004, and Spokane County was the fastest growing in the state in terms of job growth percentage. A big driver of job growth has been the manufacturing sector, where Spokane County had the eighth-fastest growth in manufacturing of the 450 metropolitan areas in the U.S. for 2006. This rapid growth will continue to drive demand for new plant investment, which underscores the need for Avista's timely recovery of costs as we strive to return to financial health. While the number of electric customers will increase, the average annual usage for residential customers is not expected to change significantly.

Natural gas retail load growth is expected to average just over three percent annually over the next four years in Avista's Washington service territory. The growth rate for natural gas load is tied to increases in population and the number of businesses in Avista's service territory, coupled with expected conversions to natural gas from electric and oil space heat and electric water heating.

III. RATE REQUESTS

Electric

Q. Please provide an overview of Avista's electric rate request in this filing.

A. Through this filing, the Company is requesting that the Commission grant an electric rate increase of $51.1 million or 15.85% in base retail rates.

The Company's request is based on a proposed rate of return of 9.39% with a common equity ratio of 47.78% and an 11.3% return on equity. Company witness Mr. Hirschkorn has proposed to spread the revenue increase by service (rate) schedule in order to move the relative

rates of return for the individual rate schedules toward unity. The proposed increase by rate schedule is shown below.

Illustration 1

Service Schedule	Proposed Net Increase
Residential Service Schedule 1	16.7%
General Service Schedules 11 & 12	11.9%
Large General Service Schedules 21 & 22	15.3%
Extra Large General Service Schedule 25	16.2%
Pumping Service Schedules 31 & 32	15.8%
Street & Area Lighting Schedules 41-49	12.7%
Overall Increase	15.8%

The Company is proposing to raise the monthly residential basic charge to $6.00 from the current $5.50 charge.

The monthly bill for a residential customer using an average of 1,000 kWhs per month would increase from $59.14 to $69.21 per month, an increase of $10.07 or 17.0%. Mr. Hirschkorn will provide additional details related to rate spread and rate design.

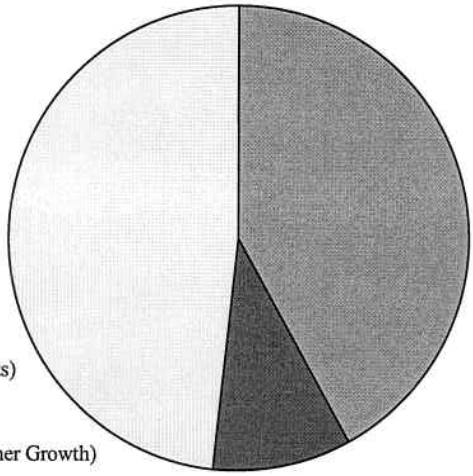
Q. What are the primary components causing the Company's request for an electric rate increase?

A. The Company's last electric general rate case in Washington was based on 2004 test year and 2006 pro forma period data. The current filing includes a 2006 test period and 2008 pro forma data. Therefore, the Company's electric rate request is based on changes in costs over roughly a two-year period.

As shown in Illustration 2, the primary factors driving the electric rate increase are increases in power supply-related expenses, and increases in plant investment costs.

Illustration 2

Primary Electric Revenue Requirement Factors



Power Supply & Transmission Expense 42%
*Increased Loads
*Mid Columbia Contract Costs
*Medium-term Purchase Contracts
*CS2 Wheeling Costs

Increased Plant Investment Costs[(1)] 48%
*Generation Upgrades (Hydro & Thermal Plants)
*Transmission Upgrades
*Distribution (2 Years of New Customer Growth)

Distribution O&M & Other Expense 10%
*Distribution Operation & Maintenance Costs
*Administrative & General Expenses

(1) Includes return on investment, depreciation and taxes, offset by the tax benefit of interest.

As explained by Mr. Johnson, the increase in production and transmission expense is driven primarily by wholesale electric and natural gas costs to serve increasing load requirements for 2008. Retail loads for 2008 are 105 aMW (system) higher than the 2004 retail loads that were used to develop current retail rates. Other production related expense increases include increased costs for the Mid-Columbia purchase contracts, as well as increased transmission costs for Coyote Springs II.

Gross plant additions of approximately $154 million (Washington allocation) are driven primarily by Avista's thermal and hydro generating facility upgrades at the Company's Cabinet Gorge and Noxon Rapids hydroelectric projects, the Colstrip thermal projects, and the multi-year electric transmission upgrades currently in progress. The increase in gross plant also reflects the $37 million of Washington's share of the purchase of the Rathdrum CT project, previously leased,

in September 2005. This transaction is further discussed by Company witness Mr. Malquist. Company witness Mr. Storro will describe the generation investments and Company witness Mr. Kinney will address the transmission upgrades.

Natural Gas

Q. What is Avista's natural gas rate request in this filing?

A. Through this filing the Company is requesting that the Commission grant an increase of $4.5 million or 2.27% for Avista Utilities' Washington natural gas operations.

The Company's request is based on a proposed rate of return of 9.39% with a common equity ratio of 47.78% and an 11.3% return on equity. The proposed change by rate schedule is shown in the illustration below.

Illustration 3

Service Schedule	Proposed Increase
General Service Schedule 101	2.3%
Large General Service Schedule 111/112	1.4%
High Annual Load Factor – Lg. General Service Schedule 121/122	2.3%
Interruptible Sales Service Schedule 131/132	0.5%
Transportation Service Schedule 146 (excluding gas costs)[1]	1.7%
Overall Increase	2.3%

The proposed increase by rate schedule results in rates of return for each schedule that are close to the cost of providing service (unity). The monthly bill for a residential customer using 70 therms per month would increase from $88.81 to $90.74 per month, an increase of $1.93 or 2.2%. The Company is also proposing that the customer basic charge be increased to $6.00 from the current $5.50 per month. Mr. Hirschkorn will address these rate spread and rate design issues.

[1] The calculation of the percentage increase excludes the cost of natural gas and transportation for this schedule.

Q. The proposed rate increase is related to changes in the fixed costs of providing gas service to customers. Is the Company proposing any changes to natural gas commodity costs in this case?

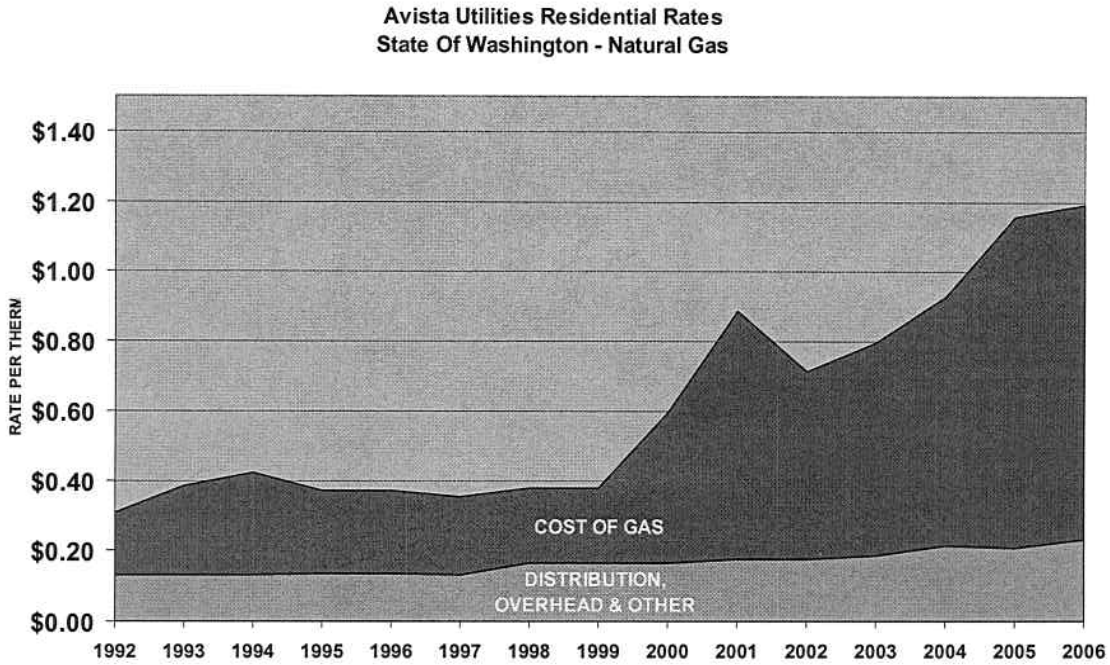
A. No. Avista is not proposing changes in this filing to the natural gas commodity costs included in customers' current rates. Changes in commodity costs are addressed in the annual purchased gas adjustment (PGA) filings.

The natural gas industry has experienced significant pricing volatility and upward price pressure on the wholesale cost of natural gas. Natural gas prices in the Pacific Northwest are increasingly affected by supply and demand factors in other regions of the United States and Canada because of growth in transcontinental pipeline capacity. Global energy markets, including oil prices, are also affecting natural gas prices.

Avista does not have natural gas reserves, and consequently, purchases all its natural gas requirements in the wholesale market. Avista employs a hedging program to provide a measure of cost stability in commodity price in these dynamic markets.

The graph in Illustration 4 below shows the history of changes in natural gas costs to residential customers. The bottom portion of the graph shows the change over time in the Company's capital and expense costs associated with gas distribution (base rate costs). As shown in the illustration, the delivered cost of gas has increased over time, primarily due to the commodity cost of gas.

Illustration 4



Q. Has the Company considered the economic impacts of the Company's rate proposals to its customers?

A. Yes. Through my involvement with area chambers and economic development agencies, I am particularly mindful of the impact rate increases have on our customers. This includes businesses within our service area and the important role the utility plays in the communities we serve. Avista will continue to aggressively manage costs to achieve the appropriate balance in providing safe and reliable service at competitive rates, while rebuilding a financially healthy utility. In the long term, a financially healthy utility will foster customer satisfaction and enable the utility to finance under reasonable terms the new infrastructure required over time to serve our customers.

Q. Does the Company have programs in place to mitigate the impacts on customers of the proposed rate increase.

A. Yes. Avista Utilities offers a range of programs to help customers who have difficulty paying their energy bills. Some programs are in cooperation with local Washington community action agencies, who are specialized in targeting assistance where it is most needed. Company witness Mr. Kopczynski provides additional detail in his testimony concerning these programs.

- Energy efficiency programs. Avista Utilities offers energy efficiency services to electric and natural gas residential, commercial, and industrial customers.

- Project Share. Project Share is a voluntary program allowing customers to donate funds that are distributed through community action agencies to customers in need. In addition to the customer and employee contributions of $209,414 in Washington, Avista shareholders contributed $150,000 to the program in 2006.

- LIRAP. Avista's Low Income Rate Assistance Program collects approximately $3 million per year through electric and natural gas tariff surcharges. The Company, with the assistance of community action agencies, directs these funds to customers least able to pay for electric and natural gas service.

- Comfort Level Billing. The Company offers the option for customers to pay the same bill amount each month of the year by averaging their annual usage.

- Payment arrangements. The Company's Contact Center Representatives work with customers to set up payment arrangements to pay energy bills.

- CARES program. Customer Assistance Referral and Evaluation Services provides assistance to special-needs customers through access to specially trained (CARES) representatives who provide referrals to area agencies and churches for help with housing, utilities, medical assistance, etc.

- Customer service automation. Customers are able to access Avista's Interactive Voice Response system (IVR) for automated transactions to enter their own payment arrangements, listen to outage messages and conduct other business such as obtaining account balances and requesting a duplicate bill.

Q. Are there noteworthy accomplishments that you would like to address?

A. Yes. There are several items of which I am particularly proud which recognizes both the accomplishments and excellence of Avista, and its employees:

- In January 2005, the Spokane County Air Pollution Control Authority (SCAPCA) awarded Avista Corp. the *2005 Clean Air Award*. The award recognized Avista's recent air pollution control-system upgrades to its Northeast Combustion Turbine facility, and our partnership in developing two air quality programs that repaired or replaced nearly 700 of Spokane's highest emitting motor vehicles over the past three years.

- In 2007, the Company received the *Outstanding Stewardship of America's Waters* award in recognition of its cooperative recreational stewardship/fishery enhancement project on Lake Pend Oreille. Avista received the *Outstanding Stewardship of America's Rivers* award, in 2006, from the National Hydropower Association (NHA), recognizing its habitat preservation and restoration work in the Clark Fork River basin.

- The Kettle Falls Generating Station, the first wood-waste fired plant in the United States built by a utility solely for the generation of electricity, marked its 23rd anniversary in December 2006. This renewable-resource, biomass plant has won several awards, such as the Washington State's *Environmental Excellence Award*, for reducing emissions from burning waste in open wigwam burners, and *Power Magazine's* Energy Conservation Award.

- During 2006, Avista Utilities' employees who volunteer in the community contributed over 53,000 volunteer hours to non-profit organizations in the Inland Northwest. Employees supported more than 500 organizations through volunteer efforts for Boy Scouts, Girl Scouts, Vanessa Behan Crisis Nursery, SNAP, United Way, Habitat for Humanity, Bloomsday and Hoopfest, to name a few.

Finally, I am most pleased with the response of Avista Utilities' employees over the past six years in supporting customers and the Company through the most serious financial challenge we have faced in our 118-year history. Employees have maintained quality customer service and reliability while being challenged to meet new accomplishments with limited resources. While we have maintained tight controls on capital and O&M budgets, our customer service surveys indicate that customer satisfaction has remained high. Our most recent overall customer satisfaction survey

results show a satisfied customer rating of 96% in our Washington and Idaho operating divisions. These results can be achieved only with very committed and competent employees.

IV. CURRENT AND FUTURE ISSUES

Q. What are some of the major issues that will be addressed by the Company in the next five years?

A. Avista will face a number of major issues, some of which will involve challenges such as Spokane River Relicensing, mitigation of dissolved gas at the Cabinet Gorge Project and the volatility of energy markets, while others, such as our new Outage Management System, Mobile Dispatch, and Advanced Meter Reading, will present opportunities to improve efficiencies and enhance service to our customers.

Q. Please describe the status of the Company's effort to relicense the Spokane River Hydroelectric Projects.

A. Avista's license for the Spokane River Hydroelectric Project (105 aMW) expires in August 2007. In July 2005, the Company submitted two license applications to the FERC, requesting it issue one license for the Post Falls Project and a separate license for the remainder of the Spokane River Project. At this time, Avista believes it is unlikely FERC will issue new license orders for the Post Falls and Spokane River Project in 2007. At the expiration of the existing license, however, FERC will automatically issue Avista an Annual License for the Project, and will continue to do so each year until the outstanding issues are resolved. Mr. Storro provides additional discussion related to these efforts in his testimony. The Company is not proposing a change in rates in this case related to this relicensing process.

Q. What is the status of the studies on the Clark Fork Projects to remediate high levels of dissolved gas?

A. As Mr. Storro explains in his testimony, when the Clark Fork relicensing process was completed, an issue related to high levels of dissolved gas occurring during spill periods at Cabinet Gorge Dam required additional study and analysis. Rather than having to immediately comply with state water quality standards (which is the law), Avista negotiated an alternative approach allowing it several years to study the actual biological impacts of dissolved gas, and to then develop an appropriate mitigation plan. A tremendous amount of work has been accomplished on this issue with stakeholders and key agencies, but a once-promising remediation approach appears now to be unworkable. Work on this issue will continue through 2007.

Q. Please highlight the status of Avista's Electric Transmission Upgrade Project.

A. As Mr. Kinney explains in his testimony, Avista Utilities is in the final year of a five-year plan to upgrade and reinforce the electric transmission grid in eastern Washington and northern Idaho. The cost of these upgrades is estimated to exceed $130 million (2003-2007). This plan was developed in collaboration with the Bonneville Power Administration to improve the delivery of electricity for existing and future power needs in Avista's service territory, to relieve transmission congestion, and to improve system reliability. Ultimately, the project will add over 100 circuit miles of 230 kV transmission line to the system and will increase the capacity of another 50 miles of transmission line. Avista is also constructing two new 230 kV substations and is reconstructing three existing 230kV substations.

Q. How is Avista managing the volatility of today's wholesale electric and natural-gas markets?

A. The Company and its customers continue to face significant challenges associated with the volatility of electric and natural gas wholesale market prices. Volatile wholesale prices impact the cost to the Company's retail natural gas customers, the cost to produce power from Avista's natural gas-fired generating projects, and the financing requirements to cover electric and natural gas purchases. The natural variability of Avista's hydroelectric generation exposes the Company and its customers to volatile wholesale electric and natural gas prices, in particular, when the Company must purchase replacement power from the market or run gas-fired generation to cover low streamflow conditions. The Company has resource management and resource procurement strategies that reduce exposure to volatile wholesale market prices and provide a level of price stability for our customers. Mr. Storro addresses the Company's hedging strategies and Risk Management Policy.

Power cost deferral and recovery tracking mechanisms, such as the electric Energy Recovery Mechanism in Washington, the Power Cost Adjustment in Idaho, and the Purchased Gas Adjustments in both states, are ever-more important to the Company in addressing the variability of the costs included in these mechanisms. This is especially true given Avista's increasing reliance on natural gas for thermal generation.

Q. How will Avista manage the acquisition of electric resources in meeting the requirements of the Energy Independence Act (I-937) and the pending Senate Bill 6001?

A. Avista will face significant challenges related to implementing the requirements of I-937 and SB6001. First, the Energy Independence Act, which requires a utility to implement all cost-effective conservation, and to serve certain percentages of load with eligible renewable resources within specified target dates, will place near and long-term pressure on resource costs.

As Mr. Storro explains in his testimony, the cost of wind generation has increased significantly in the last two years.

Senate Bill 6001, which is expected to be signed into law, establishes programs and procedures to reduce greenhouse gas emissions, increase energy-sector employment, and implements an emissions performance standard for new and upgraded utility generating resources. The latter requirement applies not only to facilities the utility will build to serve loads in Washington, but also to long-term power purchase contracts, regardless of the geographic location of the resource, entered into to serve those customers.

The energy resource related requirements of I-937 and SB 6001 together with the costs associated with Avista's plans to continue upgrading its hydroelectric plants, relicensing of the Spokane River hydro plants, compliance with dissolved gas requirements at Cabinet Gorge, as well as the increased marginal cost to serve growing retail loads makes the PCORC process proposed by Avista especially important at this time.

Q. Has the Company implemented programs recently to increase efficiency and enhance customer service?

A. Yes, as will be explained later in more detail by Mr. Kopczynski, the Company is in the second phase of the Mobile Dispatch Project, designed to achieve a number of financial and customer service benefits, including increased productivity, enhanced customer service, reduced costs, and improved field safety. This project uses wireless communications between the home office and laptop computer in service trucks to dispatch field crews resulting in significant improvements in work management, as well as reduced paper work.

Avista's new Outage Management System is linked to the Company's Geographic Information System (GIS mapping system). This system substantially reduced the time necessary to restore service to customers during the December 2006 wind storm. It allows the Company's distribution facilities to be linked to individual customer service points in a three phase computer based model. The connectivity provides analysis tools to determine outage areas and affected protective devices. Switching points within the computer based model enable semi-real time reconfiguration of Avista's distribution system. Accurate outage data can be collected for all incidents providing feedback to improve reliability and outage statistics can be monitored in real time to indicate the severity of major events and assist in resource planning.

Q. Would you please describe the Company's plans to install AMR technology throughout its Washington service territory.

A. Yes. For the past ten years, the Company has been following the development of AMR technology and its potential application at Avista. Until the past few years, the cost of AMR technology has been greater than the benefits expected on the Company's system. We have observed, however, a combination of decreases in capital and installation costs of AMR, together with continuing increases in meter reading expenses. The Company completed AMR installation in Oregon in 2004 (43,000 meters), and began installation in Idaho in 2005 (over 175,000 gas and electric meters to date).

The Company proposes to install AMR devices on all Washington natural gas meters and upgrade electric meters to new solid-state meters with AMR capability, commencing in 2008.

The Company's strategy for AMR deployment in Washington has two phases. The first will begin in more rural areas with deployment of powerline carrier technology. This approach

will allow additional time to capture the efficiencies of maturing radio-based technologies for phase two deployment in urban areas. The Company is not proposing a change in rates in this filing related to the implementation of AMR, it will be requesting recovery of AMR costs in future rate proceedings. Additional information on this project is provided in the direct testimony of Company witness Ms. Cummins.

V. OTHER COMPANY WITNESSES

Q. Would you please provide a brief summary of the testimony of the other witnesses representing Avista in this proceeding?

A. Yes. The following additional witnesses are presenting direct testimony on behalf of Avista:

Mr. Kelly Norwood, Vice President of State and Federal Regulation, will present Avista's request for approval of a Power Cost Only Rate Case (PCORC) process that would allow the Company to file with the Commission to update its base power supply and transmission-related revenues and expenses between general rate cases. He explains that this proposed process:

- Is patterned after Puget Sound Energy's (PSEs) PCORC,
- Includes important safeguards to protect customers,
- Would provide more timely recovery of costs for the Company, and
- Would provide a more accurate price signal for customers.

In addition, Mr. Norwood will also explain the proposed Production Property Adjustment included in the filing, along with the pro forma period retail loads. He explains that the purpose of the Production Property Adjustment is to avoid an over-collection of fixed costs resulting from an increase in retail load from the test period to the pro forma rate year.

Mr. Malyn Malquist, Executive Vice President and Chief Financial Officer will describe, among other things, the overall financial condition of the Company, its current credit ratings, the Company's plan for a return to investment grade credit ratings, the proposed capital structure, and the overall rate of return proposed by the Company. Mr. Malquist explains that:

- We have been aggressively rebuilding our financial health by improving our cash flow, managing our costs and paying down debt. Since 2001, the Company has repurchased approximately $325 million of its higher-cost debt.
- We have been strategically reducing our involvement in our unregulated subsidiaries.
- Although the electric and natural gas deferral balances have declined in recent years, the Washington electric and natural gas deferral balances at February 28, 2007 are $66.5 million. Recovery of these balances would lead to lower debt, higher interest coverage ratios and a stronger financial condition for the Company.
- In addition, major capital expenditures are planned for 2007-2008 of approximately $355 million for customer growth, investment in generation, transmission and distribution facilities for the electric utility business as well as necessary maintenance and replacements of our natural gas utility systems. Avista needs adequate cash flow from operations to fund these requirements.
- Avista's corporate rating from Standard & Poor's is currently BB+, which is below investment grade. Avista Utilities should operate at a level that will support a strong investment grade credit rating, meaning at least a strong "BBB" or weak "A". The Company's financial performance has improved since 2001, however, we have not improved financial ratios to a level that would regain an investment grade rating and the Company does not expect to do so until at least 2008.

The Company has proposed an overall rate of return of 9.39%, including a 47.78% equity ratio and an 11.3% return on equity. In this case, although we believe an ROE greater than 11.3% is supported and is warranted, as testified by witness Avera, we also believe the 11.3% provides a reasonable balance of the competing objectives of regaining financial health within a reasonable period of time, and the impacts that increased rates have on our customers.

Dr. William E. Avera, as a principal in Financial Concepts and Applications (FINCAP), Inc., has been retained to present testimony with respect to the Company's cost of common equity. He concludes that:

- Applications of quantitative methods to alternative groups of proxy companies imply a cost of equity range of 11.3 percent to 12.3 percent, with a midpoint of 11.8 percent;
- Considering investors' expectations for capital markets and the need to support financial integrity and fund crucial capital investment even under adverse circumstances, 11.8 percent is a reasonable ROE for Avista.
- Because of Avista's reliance on hydroelectric generation, the Company is exposed to relatively greater risks of power cost volatility;
- Investors view the Energy Recovery Mechanism ("ERM") as supportive of the Company's financial integrity, but they understand that the ERM does not apply to 100 percent of power costs; nor does it insulate Avista from the need to finance accrued power production and supply costs or shield the Company from potential regulatory disallowances.
- The reasonableness of a 11.8 percent ROE for Avista is also supported by the greater risks associated with the Company's relatively small size and the need to consider flotation costs, with both of these factors more than offsetting any impact attributable to the modified ERM or the implementation of a PCORC.

Ms. Christy Burmeister-Smith, Vice President and Treasurer, will discuss the amortization methodology related to the premiums paid and the discounts on repurchased debt and will explain the amortization methodology required by FERC General Instruction 17 (FERC 17).

Mr. Don Kopczynski, Vice President of Transmission and Distribution Operations, will describe Avista's electric and natural gas energy delivery facilities and operations, recent efforts to increase efficiency and improve customer service, the Company's customer assistance programs, and the major transmission upgrades currently in progress. Mr. Kopczynski describes:

- Avista's customer service programs such as energy efficiency, Project Share, CARES program, Senior Outreach Program, and payment plans. Some of these programs will serve to mitigate the impact on customers of the proposed rate increase;
- The Company's multi-faceted effort to increase customer service automation, including replacement and upgrade of the new Interactive Voice Response (IVR) system, Mobile Dispatch, and our new Outage Management System.
- The continuing effort, in collaboration with the Bonneville Power Administration, to build and upgrade transmission infrastructure to improve reliability of delivery of electricity and to meet existing and future power needs in Avista's service territory.

These projects represent over $130 million in new infrastructure investment that will be completed by the end of 2007.

Mr. Scott Kinney, Chief Engineer, System Operations, will describe Avista's electric transmission upgrade projects and present the Company's pro forma period transmission revenues and expenses including the proposed addition to expense to allow the Company recovery of our Grid West loans. In addition, he describes the Company's Wood-Pole Management Program. Mr. Kinney explains:

- Avista is expecting to invest over $67 million (system) in seven electric transmission projects with completion dates in 2006 and 2007;
- Several revisions have been made to transmission expenses for the 2008 pro forma period, driven primarily by costs for Columbia Grid, recovery of costs for the Grid West loan, and O&M costs for Colstrip transmission;
- Why transmission revenues for 2008 decline compared with 2006, as a result of the expiration of three transmission contracts in October 2007, and
- Changes in replacement and maintenance costs associated with the Company's electric wood pole plant.

Mr. Bruce Folsom, Senior Manager of Demand Side Management, provides an overview of the Company's DSM programs and plans for expansion of Schedules 91 and 191, including the proposed modification to the accounting and regulatory treatment of DSM. In addition, he will show that Avista's expenditures for electric and natural gas energy efficiency programs have been prudently incurred.

Ms. Heather Cummins, Manager of Distribution Engineering, will present the Company's plan to implement an advanced meter reading (AMR) program in Washington. Ms. Cummins explains that:

- The Company proposes to install AMR devices on all Washington natural gas meters and upgrade electric meters to new solid-state meters with AMR capability, commencing in 2008.
- The Company does not seek an adjustment in rates at this time for AMR costs.

Mr. Dick Storro, as Director of Power Supply, will provide an overview of Avista's resource planning, power operations, and risk policy. He will discuss the Company's load-resource balance, describe our plans to comply with the Energy Independence Act (I-937), and the pending SB 6001, and will provide an update on hydro and thermal plant upgrades. He will also discuss costs associated with the Company's license commitments at the Clark Fork River hydroelectric projects, and the current re-licensing of the Spokane River hydroelectric projects. Mr. Storro explains:

- Avista's electric generation portfolio, including power supply operations;
- The Company is in a balanced-to-surplus energy position for years 2007 through 2010, on an average annual basis, but with monthly and quarterly deficits. The Company's net resource position becomes deficient in 2011;
- The Company's analysis of the cost impacts of the passage of I-937, and the changes in long-term electric resource planning that will result from this initiative and Washington SB 6001;
- The list of $20 million (system) in generation upgrades being made in 2006 and 2007 to Avista's hydro and thermal generating plants, and
- Avista's risk management policy for energy resources, including the electric hedging plan.

Mr. Clint Kalich, Manager of Resource Planning & Power Supply Analyses, will describe the Company's Aurora model (Dispatch Model) inputs, assumptions, and results related to the economic dispatch of Avista's resources to serve load requirements, and market forecast of electricity prices. He explains:

- The key assumptions driving the Dispatch Model's market forecast of electricity prices. This discussion includes the variables of natural gas, Western Electricity

Coordination Council ("WECC") loads and resources, hydroelectric conditions, and a correction of the model's dispatch of combined cycle gas turbines;

- The model dispatches Avista's resources and contracts in a manner that maximizes benefits to customers;
- The use of quantitative rate-period loads for 2008, for modeling pro forma net power supply expenses;
- The output results from the model, including thermal generation and short-term wholesale sales and purchases, were provided to Mr. Johnson to incorporate into the power supply pro forma adjustments.

Mr. William Johnson, Senior Power Supply Analyst, will describe the adjustments made to normalize power supply revenue and expense items in the pro forma period compared to the 2006 test period. He will also explain the new base level of power supply costs for Energy Recovery Mechanism (ERM) calculation purposes using the pro forma costs proposed by the Company in this filing. Mr. Johnson describes:

- The adjustment of revenues and expenses based on normal stream flow and weather conditions, and expected wholesale market power prices;
- Adjustments made to reflect known and measurable changes in power contracts, thermal generation fuel expense, and transmission expense, between the 2006 test period, and the pro forma period of 2008;
- The net effect of the adjustments to the 2006-test period power supply expense is an increase of $48,591,000 on a system basis.

Ms. Elizabeth Andrews, Manager of Revenue Requirements, will discuss the Company's overall revenue requirement proposals. In addition, her testimony generally provides accounting and financial data in support of the Company's need for the proposed increase in rates. She sponsors:

- Electric and natural gas revenue requirement calculations;
- Electric and natural gas results of operations;
- Pro forma operating results including expense and rate base adjustments;
- System and jurisdictional allocations;

Mr. David DeFelice, Senior Business Analyst, will describe the results of a detailed depreciation study performed for the Company that was the basis for changing pro forma electric and natural gas depreciation rates. Mr. De Felice explains:

- The methodology used in the depreciation study performed by Gannett Fleming, Inc.;
- Why the Company is proposing to use a straight-line depreciation method for hydroelectric generation facilities, and
- A summary of proposed changes for electric and natural gas depreciation rates for all plant that were recommended in the study.

Ms. Karen Feltes, Vice President of Human Resources, will provide an overview of Avista Corporation's Compensation Program, and will discuss the role of the Compensation Committee as it relates to setting executive compensation.

Ms. Tara Knox, Rate Analyst, sponsors the cost of service studies for electric and natural gas service, the weather normalization adjustments to retail usage, and common costs in the retail revenue credit. Ms. Knox studies indicate:

- Electric service residential and extra large service schedules are earning substantially less than the overall rate of return under present rates, while general service, large general service and lighting service schedules are earning substantially more than the overall rate of return under present rates;
- Gas general service schedule 101 (primarily residential customers) is earning slightly less than the overall return under present rates, the large firm gas service schedule is earning considerably less than the overall rate of return at present rates, all other schedules are earning more than the overall return to varying degrees;
- Mr. Hirschkorn incorporates these findings in his rate spread recommendation.

Mr. Brian Hirschkorn, Manager of Pricing, discusses the spread of the proposed annual revenue changes among the Company's general service schedules and addresses the Company's revenue normalization adjustment. He explains, among other things, that:

- The proposed electric annual revenue increase is $51.1 million, or 15.8%;
  - The monthly bill for a residential customer using an average of 1,000 kwhs per month would increase from $59.14 to $69.21 per month, an increase of $10.07 or 17.0%. This includes the proposed increase in the monthly basic or customer charge from $5.50 to $6.00.
- The proposed natural gas annual revenue increase is $4.5 million, or 2.3%;
  - The monthly bill for a residential customer using 70 therms per month would increase from $88.81 to $90.74 per month, an increase of $1.93 or 2.2%. This includes the proposed increase in the monthly basic or customer charge from $5.50 to $6.00.

Q. Does this conclude your pre-filed direct testimony?

A. Yes.